IN THE

Supreme Court of the United States

OCTOBER TERM, 1960

No. [illegible] 20

WALTER C. BEULOTTE and CECELIA BEULOTTE, his wife,

and

RAYMOND CHARVET and BLANCHE CHARVET, his wife,
Petitioners,

v.

TETE COMPANY, *Respondent*

REPLY MEMORANDUM IN SUPPORT OF PETITION FOR A WRIT OF CERTIORARI

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CASES CITED

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Supreme Court of the United States

OCTOBER TERM, 1963

No. 707

WALTER C. BRULOTTE and CECELIA BRULOTTE, his wife,

and

RAYMOND CHARVET and BLANCHE CHARVET, his wife,
Petitioners,

v.

THYS COMPANY, *Respondent*

REPLY MEMORANDUM IN SUPPORT OF PETITION FOR A WRIT OF CERTIORARI

I. INTRODUCTION

Compelling reasons for granting the petition appear on the face of the "Brief of Respondent in Opposition".[1]

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[1] Respondent's brief is cited herein as "R. Br. ——."

II. FEDERAL SUPREMACY IN THE PATENT FIELD

Respondent primarily contends that the decision below—*admittedly* in *conflict* with recent decisions of the federal courts—should be sustained as a proper exercise of *state authority* in the *contract field*.[3]

In Nos. 106[5] and 108[6] of this term, the question was whether a court, by *injunction* purporting to enforce a

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[3] Respondent frames its question in particular reference to the fact that

> ". . . the state courts have sustained the validity and enforcibility of the contracts." in suit. (R. Br. 1)

Elsewhere in its brief, respondent asserts:

> ". . . Certainly there is nothing against public policy in permitting the parties a wide range of desirable freedom of contract in accordance with local *state* laws." (R. Br. 9)
>
> ". . . this is a *state* court action at law to recover unpaid balances of patent royalties pursuant to written royalty contracts." (R. Br. 9)
>
> ". . . Freedom of contract under the *state* law should especially be permitted in a situation such as this . . ." (R. Br. 14)
>
> ". . . there was here no patent misuse, as correctly held by the *state* courts. Moreover, in any event this would not be a defense in a *state* court action at law to recover on a written royalty contract, as it is . . . applicable only to federal equity patent infringement injunction suits." (R. Br. 14)
>
> ". . . this is primarily a question of *state* contract law rather than federal law, and consequently such conflict [between the federal circuits], if any, would be immaterial in any event." (R. Br. 22)
>
> ". . . The issue is one of *state* contract law." (R. Br. 23)
>
> ". . . the decision below rests on adequate grounds of local *state* contract law . . ." (R. Br. 24)

[5] *Compco Corporation* v. *Day-Brite Lighting Co.*

[6] *Sears, Roebuck & Co.* v. *Stiffel Company.*

state law of *unfair competition,* could perpetuate the monopoly of an *invalid* design patent.

In *this* case, the questions presented involve the issue of whether a court, by application of the *state law* of *contract,* can perpetuate an important portion of the monopoly of an expired patent—i.e., the right to collect royalties for the right to use the once-patented invention.

This petition should be granted for the same reasons as the petitions were granted in Nos. 106 and 108—to further define the scope of federal supremacy in the field of patents and to insure that the public enjoys the unqualified free right to use inventions released from a patent monopoly.

III. "CONFLICTING" DECISIONS OF THIS COURT

Respondent's brief emphasizes the confusion which exists in the lower federal courts and in the state courts with respect to the relationship between (1) the rule announced in *Scott Paper Co.* v. *Marcalus Mfg. Co.,* 326 U.S. 249, 66 S. Ct. 101, 90 L. Ed. 47 (1945), which *invalidates* post-expiration royalty contracts and (2) the decision in *Automatic Radio Mfg. Co.* v. *Hazeltine Research, Inc.,* 339 U.S. 827, 70 S. Ct. 894, 94 L.Ed. 1312 (1950), which approved a specific mode of royalty payment for the right to use over 500 patents licensed as a package.

Respondent says:

> "A reversal of these judgments would be contrary to the controlling decisions of this Court on this subject. The leading case is this Court's decision in *Automatic Radio Manufacturing Co. v. Hazeltine Research, Inc.,* 339 U. S. 827, 94 L. ed. 1312, 70 S. Ct. 894, (1950), rehearing denied,

340 U.S. 846, 95 L.ed. 620, 71 S. Ct. 13, which affirmed (C.A. 1) 176 F.2d 799, affirming 77 F. Supp. 493. This decision was five years subsequent to *Scott Paper Company* v. *Marcalus Manufacturing Co.*, 326 U.S. 249, 90 L. ed. 47 (1945), and if there be any inconsistency between them, the latter Hazeltine decision is controlling." (R. Br. 10)

If *Automatic Radio* condones post expiration royalty contracts, it is in obvious conflict *not only* with *Scott Paper Co.*, which holds expressly to the contrary; *but also* with the earlier decisions of this Court on which *Scott Paper Co.* was based, including *Singer Manufacturing Co.* v. *June Manufacturing Co.*, 163 U.S. 169, 41 L.Ed. 118 (1896), and *Kellogg Co.* v. *National Biscuit Co.*, 305 U.S. 111, 117-120, 83 L.Ed. 73 (1938).

There is in fact no such holding in *Automatic Radio* —and there is no conflict in decision between *Automatic Radio* and *Scott Paper Co.*

It is *also* the fact, however, that the package of more than 500 patents embraced by the license in issue in *Automatic Radio included some patents which expired and some which were invalidated during the license term.*

It is *this* fact which has indeed given rise to the actual, widespread conflict in the decisions of the lower courts concerning the legality of post-expiration royalty contracts.[6]

In general, those courts—including the court below —which have *approved* post-expiration royalties, have found justification for such ruling in *Automatic Ra-*

[6] This conflict was the subject of footnote 17, page 21 of petitioners' opening brief.

dio.[6] In *contrast,* courts *condemning* post-expiration royalty contracts rely upon *Scott Paper Co.*

The petition should be granted to resolve this broad conflict in the lower courts which stems from the decisions of this Court in *Automatic Radio* and *Scott Paper.*

IV. THE ADMITTED CONFLICT IN DECISIONS

Respondent necessarily *admits* the conflict, emphasized at page 9 of the petition, between the decisions of the *Second* Circuit, including *E. R. Squibb & Sons* v. *Chemical Foundation, Inc.,* 93 F. 2d 475 (2 Cir. 1937) on which the decision below was based, and the more recent decisions of the *Third* Circuit in *Ar-Tik Systems*[7] and *American Securit Co.*[8] and of the District Court for the District of Maryland in *Technograph.*[9]

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[6] As in the case at bar, *Automatic Radio* is usually supplemented by the line of cases originating in the Second Circuit and typified by *E. R. Squibb & Sons* v. *Chemical Foundation, Inc.,* 93 F. 2d 475 (2 Cir. 1937).

[7] *Ar-Tik Systems, Inc.* v. *Dairy Queen, Inc.,* 302 F. 2d 496 (3 Cir. 1962)

[8] *American Securit Co.* v. *Shatterproof Glass Corp.,* 268 F. 2d 769 (3 Cir. 1959)

[9] *Technograph Printed Circuits, Ltd.* v. *Bendix Aviation Corp.,* 218 F. Supp. 1 (D. Md. 1963). On January 17, 1964 the District Court decision in *Technograph* was affirmed, *per curiam,* by the United States Court of Appeals for the Fourth Circuit, as follows:

> "After careful consideration of the record, the arguments and the briefs of counsel, we are persuaded that the patent claims are invalid for obviousness in the light of the prior art for the reasons fully discussed in the opinion of the District Court. [citing lower court case] Affirmed."

Respondent asserts, however, that

> "Subsequent to this Court's 1945 decision in Scott and 1950 decision in Hazeltine there has been no conflict of decision in the federal circuits on this question." (R. Br. 22)

Respondent's contention accentuates the fact that the state courts—and many of the federal district courts[10]—are following the Second Circuit *Squibb* line of precedent.

This fundamental conflict in the lower courts, bottomed as it is upon a direct conflict in the federal circuits, should be resolved.

V. MANDATORY PACKAGE LICENSING

Respondent says:

> "When carefully read, these royalty contracts provide that *in order to use these machines* embodying the Thys patent, *a license and royalty payment are necessary*, . . .". (R. Br. 21)

The license which defendant admits was *necessary* expressly requires the payment of royalties on at least *five* patents which were *never embodied in the petitioner's machines.*[11] It necessarily follows that the

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[10] See the district court cases cited at pages 11 and 12 of the Petition, including *Tate* v. *Lewis*, 127 F. Supp. 105 (D. Mass. 1954); *Starke* v. *Manufacturers National Bank of Detroit*, 174 F. Supp. 822 (E.D. Mich. 959); and *H-P-M Development Corp.* v. *Watson-Stillman Co.*, 71 F. Supp. 906 (D.N.J. 1947). cf. *Armstrong* v. *Emerson Radio and Phonograph Corporation*, 179 F. Supp. 95 (S.D.N.Y. 1959); and *Well Surveys, Inc.* v. *McCullough Tool Co.*, 199 F. Supp. 374 (N.D. Okla. 1961).

[11] Finding of Fact 7 of the trial court reproduced at Pet. App. A. 32a.

decision below is in direct conflict with the various decisions of this Court which preclude coercive package licensing. (Pet. pp. 20-23)

VI. CONFLICT WITH THE "TIE-IN" CASES

The subject matter of an expired patent belongs to the public. The contracts in suit admittedly require the payment of tribute for the right to use such *unpatented* subject matter. The "tie-in" cases expressly foreclose all such agreements. (Pet. pp. 18-20)

The cases cited at page 21 of respondent's brief definitely did *not* overrule "this same defense". (R. Br. 21) If these cases are subject to any such construction, the petition should be granted to resolve the resulting conflict with the controlling decisions of this Court.

VII. THE COURT BELOW IMPROPERLY REFUSED TO BE GUIDED BY FEDERAL LAW ON THE FEDERAL QUESTIONS PRESENTED

Underlying the admitted conflict between the federal and state courts on the questions raised by the petition is a basic question of principle involving federal supremacy in the field of federal law.

The court below dismissed the Third Circuit decision in *Ar-Tik Systems*[12] with the observation that it was

> "... not obligated to follow decisions of the lower federal courts. Lamb v. Railway Express Agency, 51 Wash. 2d 616." [13]

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[12] *Ar-Tik Systems, Inc.* v. *Dairy Queen, Inc.*, 302 F. 2d 496 (3 Cir. 1962)

[13] The quotation is from footnote 2 of the Opinion of the Supreme Court of Washington. (Pet. App. A., p. 17a)

Respondent contends here, as it obviously did below, that the misuse and antitrust issues presented by the petition are

> ". . . primarily a question of state contract law rather than federal law, . . ." (R. Br. 22)

Respondent says that misuse

> ". . . would not be a defense in a state court action at law to recover on a written royalty contract, as it is . . . applicable only to federal equity patent infringement injunction suits." (R. Br. 14)

This ruling of the court below and these contentions of respondent are in the teeth of the controlling decisions of this Court.

In *Scott Paper Co.*, this Court said:

> ". . . The nature and extent of the legal consequences of the expiration of a patent are Federal questions, the answers to which are to be derived from the patent laws and the policies which they adopt."

This Court repeatedly has emphasized that in matters involving federal policy, the federal law is supreme and the state laws must yield. In *Sperry* v. *Florida,* 373 U.S. 379, 10 L.Ed. 2d 428 (1963), this Court stated:

> "But 'the law of the State, though enacted in the exercise of powers not contravened, must yield' when incompatible with federal legislation. Gibbons v. Ogden (US) 9 Wheat. 1, 211, 6 L ed 23, 73." (10 L.Ed. 2d at 432)

In *Sola Electric Co.* v. *Jefferson Electric Co.*, 317 U.S. 173, 87 L.Ed. 165 (1942), this Court said:

> "... When a federal statute condemns an act as unlawful, the extent and nature of the legal consequences of the condemnation, though left by the statute to judicial determination, are nevertheless federal qeustions, the answers to which are to be derived from the statute and the federal policy which it has adopted. To the federal statute and policy, conflicting state law and policy must yield.
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> * * * * * * * *
>
> "Local rules of estoppel which would fasten upon the public as well as the petitioner the burden of an agreement in violation of the Sherman Act must yield to the Act's declaration that such agreements are unlawful, and to the public policy of the Act which in the public interest precludes the enforcement of such unlawful agreements. Cf. Morton Salt Co. v. G. S. Suppiger Co., 314 US 488, 492, 493, 86 L ed 363, 365, 366, 62 S Ct 402." (87 L.Ed. at 168-169)

In the case at bar the federal patent laws and the federal antitrust laws invalidate the post-expiration royalty contracts in suit as a matter of public policy. In these circumstances, the state laws must yield.[14]

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[14] *If* the cases cited at pages 20-21 of respondent's brief in fact stand for the proposition that misuse and antitrust violation are not proper defenses to an action to enforce a royalty contract, they would be in conflict with the foregoing decisions of this Court. The fact, of course, is that these cases do not stand for any such proposition. The issue in each of such cases was whether the subject matter involved was within the scope of the contract in suit and the courts pointed out that the rules applicable to determination of the question of infringement should not be applied.

This petition should be granted in view of the departure of the court below from the controlling principles defined by this Court.

VIII. CONCLUSION

This case manifestly involves "principles, the settlement of which is of importance to the public as distinguished from that of the parties . . .". There is, on the issues raised by the petition, "a real and embarrassing conflict of opinion and authority between the Circuit Courts of Appeal." The state court below has indeed "decided a federal question of substance . . . in a way probably not in accord with the applicable decisions of this court." In these circumstances, the Petition for a Writ of Certiorari should be granted. *Rice* v. *Sioux City Memorial Park Cemetery,* 349 U.S. 70, 99 L.Ed. 897, 75 S.Ct. 614 (1954); *Layne* v. *Western Well Works, Inc.,* 261 U.S. 387, 393, 67 L.Ed. 712, 43 S.Ct. 422 (1923).

Respectfully submitted,

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